FINANCIAL STATEMENTS

THE FRIENDSHIP BRIDGE

FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011

THE FRIENDSHIP BRIDGE

CONTENTS

		PAGE NO.
INDEPENDENT AUDITORS' REPORT		2 - 3
EXHIBIT A -	Statements of Financial Position, as of December 31, 2012 and 2011	4 - 5
EXHIBIT B -	Statements of Activities and Changes in Net Assets, for the Years Ended December 31, 2012 and 2011	6 - 7
EXHIBIT C -	Statement of Functional Expenses, for the Year Ended December 31, 2012	8 - 9
EXHIBIT D -	Statement of Functional Expenses, for the Year Ended December 31, 2011	10 - 11
EXHIBIT E -	Statements of Cash Flows, for the Years Ended December 31, 2012 and 2011	12
NOTES TO FINANCIAL STATEMENTS		13 - 23

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Friendship Bridge
Lakewood, Colorado

We have audited the accompanying statements of financial position of The Friendship Bridge (a non-profit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Friendship Bridge as of December 31, 2012 and 2011, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Bethesda, Maryland
May 17, 2013

THE FRIENDSHIP BRIDGE

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents:		
Cash held in the United States	$ 150,470	$ 418,646
Cash held in Guatemala	713,952	384,648
Total cash and cash equivalents	864,422	803,294
Investments (Notes 2 and 10)	1,170,250	829,877
Loans receivable, net (Note 3)	3,313,535	3,573,147
Interest receivable	56,043	51,878
Grants and pledges receivable	28,907	57,242
Prepaid expenses and other assets	31,661	32,760
Total current assets	5,464,818	5,348,198
PROPERTY AND EQUIPMENT		
Furniture and equipment	117,102	95,528
Computers and related equipment	161,961	140,718
Vehicles	85,317	92,823
	364,380	329,069
Less: Accumulated depreciation and amortization	(234,297)	(178,274)
Net property and equipment	130,083	150,795
NONCURRENT ASSETS		
Security deposits	15,512	15,563
Investments, net of current portion (Notes 2 and 10)	10,120	21,009
Total noncurrent assets	25,632	36,572
TOTAL ASSETS	**$ 5,620,533**	**$ 5,535,565**

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Loans payable (Note 4)	$ 143,665	$ 349,070
Accounts payable and accrued liabilities	471,062	493,987
Total current liabilities	614,727	843,057
NONCURRENT LIABILITIES		
Loans payable (Note 4)	1,310,000	985,000
Total liabilities	1,924,727	1,828,057
NET ASSETS		
Unrestricted	3,411,255	3,369,985
Temporarily restricted (Note 5)	183,551	236,523
Permanently restricted (Note 11)	101,000	101,000
Total net assets	3,695,806	3,707,508
TOTAL LIABILITIES AND NET ASSETS	**$ 5,620,533**	**$ 5,535,565**

See accompanying notes to financial statements.

THE FRIENDSHIP BRIDGE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Grants and contributions	$ 466,132	$ 81,464	$ -	$ 547,596
Interest and investment income (Note 2)	46,029	-	-	46,029
Loan interest and fees	1,565,958	-	-	1,565,958
In-kind contributions	21,232	-	-	21,232
Events	126,846	-	-	126,846
Sales and other income	91,546	-	-	91,546
Net assets released from donor restrictions - satisfaction of donor restrictions (Note 6)	134,436	(134,436)	-	-
Total support and revenue	2,452,179	(52,972)	-	2,399,207
EXPENSES				
Program Services:				
Financial Products	1,071,944	-	-	1,071,944
Education (Guatemala)	791,125	-	-	791,125
Nurses Education (Vietnam)	42,163	-	-	42,163
Total program services	1,905,232	-	-	1,905,232
Supporting Services:				
General and Administrative	250,528	-	-	250,528
Fundraising	208,607	-	-	208,607
Total supporting services	459,135	-	-	459,135
Total expenses	2,364,367	-	-	2,364,367
Changes in net assets before other items	87,812	(52,972)	-	34,840
OTHER ITEMS				
Currency (loss) gain	(46,542)	-	-	(46,542)
Transfer of net assets (Note 5)	-	-	-	-
Total other items	(46,542)	-	-	(46,542)
Changes in net assets	41,270	(52,972)	-	(11,702)
Net assets at beginning of year	3,369,985	236,523	101,000	3,707,508
NET ASSETS AT END OF YEAR	**$ 3,411,255**	**$ 183,551**	**$ 101,000**	**$ 3,695,806**

See accompanying notes to financial statements.

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 518,583	$ 349,422	$ -	$ 868,005
15,820	-	-	15,820
1,344,519	-	-	1,344,519
69,150	-	-	69,150
188,962	-	-	188,962
84,515	-	-	84,515
195,762	(195,762)	-	-
2,417,311	153,660	-	2,570,971
1,781,925	-	-	1,781,925
160,693	-	-	160,693
5,654	-	-	5,654
1,948,272	-	-	1,948,272
202,517	-	-	202,517
155,702	-	-	155,702
358,219	-	-	358,219
2,306,491	-	-	2,306,491
110,820	153,660	-	264,480
63,173	-	-	63,173
(25,000)	25,000	-	-
38,173	25,000	-	63,173
148,993	178,660	-	327,653
3,220,992	57,863	101,000	3,379,855
$ 3,369,985	**$ 236,523**	**$ 101,000**	**$ 3,707,508**

See accompanying notes to financial statements.

THE FRIENDSHIP BRIDGE

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Services			
	Financial Products	Education (Guatemala)	Nurses Education (Vietnam)	Total Program Services
Salaries and benefits (Note 9)	$ 615,391	$ 578,799	$ 770	$ 1,194,960
Printing and production	-	-	64	64
Professional fees	8,518	6,520	-	15,038
Occupancy (Note 8)	51,984	40,701	60	92,745
Accounting and audit	8,731	6,629	51	15,411
Insurance	7,066	5,685	-	12,751
Depreciation and amortization	40,056	30,412	-	70,468
Telecommunications	17,495	14,149	15	31,659
Travel and transportation	38,904	36,185	37,244	112,333
Consulting fees	12,157	9,519	-	21,676
Supplies	10,692	10,197	11	20,900
Training	19,317	38,250	-	57,567
Hospitality	-	-	12	12
Insight trips	-	-	-	-
Interest expense (Note 4)	60,576	-	-	60,576
Equipment	14,261	10,906	-	25,167
Donated legal support and training services	-	-	-	-
Events	-	-	-	-
Bad debts and allowances (Note 3)	44,402	-	-	44,402
Software and other fees	75,083	363	3,936	79,382
Advertising	13,560	-	-	13,560
Credit checks	26,180	-	-	26,180
Other	7,571	2,810	-	10,381
TOTAL	**$ 1,071,944**	**$ 791,125**	**$ 42,163**	**$ 1,905,232**

See accompanying notes to financial statements.

Supporting Services			
General and Administrative	**Fundraising**	**Total Supporting Services**	**Total Expenses**
$ 141,242	$ 117,645	$ 258,887	$ 1,453,847
11,752	9,789	21,541	21,605
465	385	850	15,888
10,934	9,106	20,040	112,785
9,382	7,815	17,197	32,608
1,216	1,008	2,224	14,975
-	-	-	70,468
2,836	2,362	5,198	36,857
7,797	6,494	14,291	126,624
12,392	10,266	22,658	44,334
2,091	1,742	3,833	24,733
217	180	397	57,964
2,219	1,849	4,068	4,080
8,305	6,880	15,185	15,185
-	-	-	60,576
385	319	704	25,871
11,612	9,620	21,232	21,232
14,626	12,117	26,743	26,743
-	-	-	44,402
9,432	7,856	17,288	96,670
-	-	-	13,560
-	-	-	26,180
3,625	3,174	6,799	17,180
$ 250,528	**$ 208,607**	**$ 459,135**	**$ 2,364,367**

See accompanying notes to financial statements.

THE FRIENDSHIP BRIDGE

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services			
	Financial Products	**Education (Guatemala)**	**Nurses Education (Vietnam)**	**Total Program Services**
Salaries and benefits (Note 9)	$ 936,812	$ 108,411	$ 827	$ 1,046,050
Printing and production	7,165	2,867	-	10,032
Professional fees	13,768	-	-	13,768
Occupancy (Note 8)	92,320	4,741	87	97,148
Accounting and audit	20,098	-	-	20,098
Insurance	11,669	731	9	12,409
Depreciation and amortization	61,889	3,040	35	64,964
Telecommunications	32,858	1,044	13	33,915
Travel and transportation	69,051	8,065	4,468	81,584
Consulting fees	80,446	12,190	63	92,699
Supplies	22,326	2,023	13	24,362
Training	20,397	2,134	-	22,531
Hospitality	1,807	630	-	2,437
Insight trips	7,259	2,533	-	9,792
Interest expense (Note 4)	50,682	-	-	50,682
Equipment	24,379	61	-	24,440
Donated legal support and training services	28,572	9,874	127	38,573
Events	-	-	-	-
Bad debts and allowances (Note 3)	41,760	-	-	41,760
Software and other fees	219,927	913	12	220,852
Advertising	8,364	-	-	8,364
Credit checks	21,533	-	-	21,533
Other	8,843	1,436	-	10,279
TOTAL	**$ 1,781,925**	**$ 160,693**	**$ 5,654**	**$ 1,948,272**

See accompanying notes to financial statements.

Supporting Services			
General and Administrative	**Fundraising**	**Total Supporting Services**	**Total Expenses**
$ 125,662	$ 72,644	$ 198,306	$ 1,244,356
774	6,962	7,736	17,768
-	-	-	13,768
8,111	4,689	12,800	109,948
16,444	-	16,444	36,542
1,428	825	2,253	14,662
5,326	3,079	8,405	73,369
2,038	1,178	3,216	37,131
5,094	2,945	8,039	89,623
9,549	5,520	15,069	107,768
1,936	1,119	3,055	27,417
3,683	-	3,683	26,214
195	1,755	1,950	4,387
784	7,053	7,837	17,629
-	-	-	50,682
-	-	-	24,440
19,433	11,144	30,577	69,150
-	31,821	31,821	31,821
-	-	-	41,760
1,781	1,030	2,811	223,663
-	-	-	8,364
-	-	-	21,533
279	3,938	4,217	14,496
$ 202,517	**$ 155,702**	**$ 358,219**	**$ 2,306,491**

See accompanying notes to financial statements.

THE FRIENDSHIP BRIDGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (11,702)	$ 327,653
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	70,468	73,369
Increase in the provision for uncollectable loans	3,782	15,639
Loans directly written-off	40,620	26,121
Stock donations	(4,847)	(9,713)
Loan guarantee funds absorbed	170,503	64,677
Currency loss (gain) on loan portfolio	41,669	(70,450)
Realized loss on sales of investments	499	6,908
Unrealized gain on investments	(5,832)	(3,684)
Gain on sale of vehicle	(1,982)	-
Forgiveness of loan liability	(6,000)	-
(Increase) decrease in:		
Interest receivable	(4,165)	(4,052)
Grants and pledges receivable	28,335	18,148
Prepaid expenses and other assets	1,099	(15,455)
Security deposits	51	(8,562)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(22,924)	35,828
Net cash provided by operating activities	299,574	456,427
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(49,756)	(48,537)
Proceeds from sale of vehicle	1,982	-
Proceeds from sales of investments	750,904	630,788
Purchase of investments	(1,070,208)	(713,965)
Loan capital issued to beneficiaries	(6,980,370)	(7,358,450)
Loan capital collected from beneficiaries	6,983,407	6,617,980
Net cash used by investing activities	(364,041)	(872,184)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from investors/lendees	409,595	334,070
Repayments on loans/notes	(284,000)	-
Net cash provided by financing activities	125,595	334,070
Net increase (decrease) in cash and cash equivalents	61,128	(81,687)
Cash and cash equivalents at beginning of year	803,294	884,981
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 864,422**	**$ 803,294**
SUPPLEMENTAL INFORMATION		
Interest Paid	**$ 58,685**	**$ 51,537**

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Friendship Bridge was incorporated as a Colorado non-profit corporation on March 20, 1990. The Friendship Bridge provides microcredit and education to help women and their families create their own solutions to poverty. The Friendship Bridge's primary focus is the Women of Guatemala. The Friendship Bridge's primary sources of revenue are grants, public contributions and interest on microcredit loans.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

The Friendship Bridge considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, The Friendship Bridge maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal. Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act("Dodd-Frank Act") provides temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) - insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). The Friendship Bridge maintains a portion of its cash balances at financial institutions in non-interest bearing accounts; thereby, all of these cash balances are protected by FDIC under this Act.

The Friendship Bridge had $713,952 and $384,648 of cash and cash equivalents on hand and invested in financial institutions in Guatemala as of December 31, 2012 and 2011, respectively. The majority of funds invested abroad are uninsured.

Loans receivable -

Loans receivable approximate fair value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the loan beneficiary.

Investments -

Investments are recorded at fair value. Unrealized and realized gains and losses are included in investment income in the Statements of Activities and Changes in Net Assets.

Property and equipment -

Property and equipment (with an acquisition value greater than $1,500) are stated at cost. Property and equipment (including vehicles) are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Property and equipment (continued) -

The cost of maintenance and repairs is recorded as expenses are incurred. Donations of property and equipment are recorded as current support at their estimated fair value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, The Friendship Bridge reports expirations of donor restrictions when the donated or acquired assets are placed in service (or when depreciated) as instructed by the donor. At that time, The Friendship Bridge releases the temporarily restricted net assets from restrictions to unrestricted net assets.

Income taxes -

The Friendship Bridge is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Friendship Bridge is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2012 and 2011, The Friendship Bridge has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of The Friendship Bridge and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of The Friendship Bridge and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by The Friendship Bridge.

Grants and contributions -

Grants and contributions are recorded as revenue in the year notification is received from the donor. Grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Grants and contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Donated services and in-kind contributions -

Financial Accounting Standards Board (FASB) standards require that the value of services provided by individuals with specialized skills be recognized in The Friendship Bridge's financial statements. The FASB also requires that other donated items such as equipment and certain unbilled expenditures be recognized by The Friendship Bridge as current support (and expense). In-kind contributions recorded in the accompanying financial statements include legal support, training services and other unbilled costs which have been provided by volunteer professionals and other individuals. In-kind contributions totaled $21,232 and $69,150 during the years ended December 31, 2012 and 2011, respectively.

The Friendship Bridge also receives contributions from other sources in which the value of those services cannot be reasonably determined. Accordingly, the value of those contributions has not been recorded in the accompanying financial statements.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Functional currency -

The Quetzal is the functional currency of Guatemala. All assets and liabilities held in Guatemala are reported in the accompanying Statements of Financial Position and translated into U.S. Dollars using the exchange rate in effect at December 31, 2012 and 2011 of $1.00 = $7.90 Quetzal and $1.00 = $7.81 Quetzal, respectively. All revenues and expenses transacted in Guatemala are reported in the accompanying Statements of Activities and Changes in Net Assets and have been translated to U.S. Dollars using the average annual exchange rate. All year-end assets and liabilities (held in Guatemala) have been revalued at the current spot rates; therefore, exchange rate variances have been reflected as currency gains or losses in the accompanying Statements of Activities and Changes in Net Assets

Risks and uncertainties -

The Friendship Bridge invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Fair value measurements -

The Friendship Bridge adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosure*s. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Friendship Bridge accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at December 31, 2012 and 2011:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Certificates of deposit (U.S.)	$ 205,999	$ 206,123	$ 546,414	$ 545,893
Certificates of deposit (Guatemala)	693,975	693,975	225,968	225,968
Mutual funds	49,202	49,041	36,332	33,936
Equities	26,032	26,931	25,000	23,706
Cash and money market funds	200,272	200,272	12,526	12,526
Index fund (futures contract)	4,380	4,028	9,968	8,857
TOTAL INVESTMENTS	**$1,179,860**	**$1,180,370**	**$ 856,208**	**$ 850,886**
Current portion	$1,169,861	$1,170,250	$ 835,208	$ 829,877
Noncurrent portion	9,999	10,120	21,000	21,009
TOTAL INVESTMENTS	**$1,179,860**	**$1,180,370**	**$ 856,208**	**$ 850,886**

Included in interest and investment income are the following at December 31, 2012 and 2011:

	2012	2011
Interest and dividends	$ 40,696	$ 22,728
Realized loss on sales of investments	(499)	(6,908)
Unrealized gain on investments	5,832	-
TOTAL INTEREST AND INVESTMENT INCOME	**$ 46,029**	**$ 15,820**

3. LOANS RECEIVABLE

Loans receivable consist of loans provided to groups of impoverished women in Guatemala. The term of the loans range between six and twelve months and bear interest of 2.00% per month flat. Principal and interest payments are due monthly. The Friendship Bridge requires no collateral (other than social collateral) for these loans.

During the year ended December 31, 2012, The Friendship Bridge recorded $44,402 of bad debts based on a $3,782 increase in the loan loss allowance from 2011 and direct write-offs of loans during the current year totaling $40,620. As of December 31, 2012, the total loans receivable balance, net of the allowance of $114,253 (which represents 3.33% of the gross portfolio balance of $3,427,788), aggregated $3,313,535. Based on the Guatemala Quetzal spot exchange rate fluctuation from December 31, 2011 to December 31, 2012, the total loans receivable balance experienced a $41,669 loss on valuation at fiscal year-end.

During the year ended December 31, 2011, The Friendship Bridge recorded $41,760 of bad debts based on a $15,639 increase in the loan loss allowance from 2010 and direct write-offs of loans during the current year totaling $26,121. As of December 31, 2011, the total loans receivable balance, net of the allowance of $110,471 (which represents 3.00% of the gross portfolio balance of $3,683,618), aggregated $3,573,147. Based on the Guatemala Quetzal spot exchange rate fluctuation from December 31, 2010 to December 31, 2011, the total loans receivable balance experienced a $70,450 gain on valuation at fiscal year-end.

4. LOANS PAYABLE

Private Placement -

On May 31, 2007, The Friendship Bridge entered into a promissory note agreement with a group of individuals for $625,000 for the purpose of increasing its lending activities in Guatemala. On September 30, 2007, The Friendship Bridge entered into a second promissory note agreement for $375,000. The notes bore interest of 3.00% during the first two years and 5.00% thereafter. The notes were due in two installments; $625,000 on May 30, 2012 and $375,000 on September 30, 2012. On December 15, 2011, $335,000 of the first promissory note and the entire balance ($375,000) of the second promissory note were combined with $275,000 of additional loan proceeds (provided by new investors) to create a new promissory note (totaling $985,000). The new promissory note bears interest of 4.00% and is due in full on December 15, 2014. The balance remaining under the initial promissory note aggregated $290,000 as of December 31, 2011, and $284,000 of the total was paid in full on May 29, 2012 ($6,000 of the $290,000 was forgiven by two of the initial private placement investors).

Other loans -

On October 13, 2011, The Friendship Bridge received $50,000 under an unsecured note agreement with Capital Sisters International, Inc. The note was non-interest bearing and terminated on October 13, 2012, at which point the note converted into two new $25,000 non-interest bearing notes (one due in full on October 15, 2013 and the other due on October 15, 2014). Additionally, on March 16, 2012 The Friendship Bridge received another $50,000 under a note agreement with Capital Sisters International, Inc. The note is non-interest bearing and is due in full on March 18, 2013.

On July 13, 2012, The Friendship Bridge received $300,000 under an unsecured note agreement with Global Partnerships. The note bears interest of 7.25% and is due in full on October 15, 2014.

4. LOANS PAYABLE (Continued)

Other loans (continued) -

The Friendship Bridge also receives short-term, non-interest bearing loans, from Kiva (an online lending service) which collects loan proceeds on behalf of the organization. Loans are repaid to Kiva when the loans are due. As of December 31, 2012 and 2011, total loans payable under these short-term loan agreements aggregated $68,665 and $9,070, respectively.

In accordance with generally accepted accounting principles, The Friendship Bridge has imputed interest expense totaling $5,087 and $433 on all aforementioned non-interest bearing notes during the year ended December 31, 2012 and 2011, respectively.

Total interest expense during the year ended December 31, 2012 and 2011 under all loans payable (including imputed interest of $5,087 in 2012 and $433 in 2011), aggregated $60,576 and $50,682, respectively.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2012 and 2011:

	2012	2011
Financial Products	$ 120,572	$ 77,803
Nurses Education (Vietnam)	30,205	68,330
MIS Project	32,774	90,390
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$ 183,551**	**$ 236,523**

During the year ended December 31, 2011, The Friendship Bridge reclassified $25,000 of unrestricted net assets to temporarily restricted net assets as it was determined that a contribution received in 2010 was incorrectly classified as an unrestricted gift. The Friendship Bridge elected to present this item as a 2011 reclassification instead of a prior period correction of an error.

6. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors:

	2012	2011
Financial Products	$ 34,488	$ 539
Nurses Education (Vietnam)	42,332	4,468
MIS Project	57,616	25,755
Technology	-	160,000
Other	-	5,000
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**$ 134,436**	**$ 195,762**

7. CONTINGENCIES

The Friendship Bridge provides education and access to microcredit for women in Guatemala. Accordingly, The Friendship Bridge maintains a significant portion of its assets within Guatemala. The future results of its programs could be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate. As of December 31, 2012 and 2011, The Friendship Bridge had cash, property and equipment and loans receivable in Guatemala totaling $4,198,579 and $4,374,315, respectively, which represent 75% and 79% of The Friendship Bridge's total assets as of December 31, 2012 and 2011, respectively.

The Friendship Bridge has a branch in Guatemala which is structured as a not-for-profit and does not pay income taxes. Management believes there is no clear tax law defining the tax obligations for not-for-profit organizations providing microloans and receiving interest income. In Jan 2013, a new tax law was enacted and the requirement for The Friendship Bridge, and all Not-for-Profits was made clear. Income taxes will be due for 2013 and beyond however there continues to exist some questions regarding the amount of taxes due on what income. The analysis will not likely be ready before mid-year at which time The Friendship Bridge will decide how to become compliant with the new tax law.

Also, during 2011, the banking regulators in Guatemala proposed a new bank regulation specifically for microfinance institutions. The main objective for the proposed regulation is to eliminate money laundering. At this time, it is anticipated that, if this regulation is adopted as proposed, The Friendship Bridge will be required to change its registration and corporate structure. The potential effect of this change is currently under analysis also. If The Friendship Bridge makes changes in its corporate structure or certain elections for tax purposes, related or unrelated to the proposed legislations there is a possibility that the tax administration in Guatemala will review The Friendship Bridge's tax treatment of interest received for the past four years and require payment of back taxes. Management estimates that back taxes, if required, would not exceed $245,275. Due to the uncertainty of the applicability of the tax laws to prior years, and based on a professional opinion obtained from local professionals, The Friendship Bridge has not accrued this potential liability for past years, but will reserve an amount in 2013 for the potential taxes due in the current year.

8. LEASE COMMITMENT

The Friendship Bridge leases office space for its principal headquarters in Lakewood, Colorado under an operating lease expiring on March 31, 2015. The Friendship Bridge also leases several offices in Guatemala under short-term leases; its Central Office lease commitment of $672 is due monthly through July 31, 2015. Future minimum lease payments required under these leases are as follows.

Year Ended December 31,	
2013	$ 39,055
2014	39,596
2015	12,642
	$ 91,293

Occupancy expense for the years ended December 31, 2012 and 2011 totaled $112,785 and $109,948, respectively.

9. RETIREMENT PLAN

The Friendship Bridge adopted an IRS 403(b) plan (the Plan) covering all eligible U.S. employees. Under the provisions of the Plan, an eligible employee may defer up to 100% of annual compensation, with the total dollar amount limited by law. At its discretion, The Friendship Bridge may make matching contributions or elective contributions. Participants are 100% vested in all contributions to the Plan. The Friendship Bridge did not make any contributions to the Plan during the years ended December 31, 2012 and 2011.

10. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, The Friendship Bridge has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market The Friendship Bridge has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011, respectively.

- *Money market funds*—Fair value is equal to the reported net asset value of the fund.
- *Common stocks/equities*—Valued at the closing price reported on the active market in which the individual securities are traded.
- *Mutual funds*—The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.
- *Certificates of deposit*—Generally valued at original cost plus accrued interest, which approximates fair value.
- *Interests in hedge funds, limited partnerships, private equity funds*—These instruments do not have a readily determinable fair value. The fair values used are generally determined by the general partner or management of the entity and are based on appraisals or other estimates that require varying degrees of judgment. Inputs used in determining fair value may include the cost and recent activity concerning the underlying investments in the funds or partnerships.

10. FAIR VALUE MEASUREMENTS (Continued)

The table below summarizes, by level within the fair value hierarchy, The Friendship Bridge's investments as of December 31, 2012 and 2011:

	2012			
	Level 1	Level 2	Level 3	Total
Asset Category:				
Investments	$ 276,244	$ 900,098	$ 4,028	$ 1,180,370

	2011			
	Level 1	Level 2	Level 3	Total
Asset Category:				
Investments	$ 70,168	$ 771,861	$ 8,857	$ 850,886

11. ENDOWMENT

The Friendship Bridge has received seven contributions totaling $101,000 (four $12,500 contributions and one $50,000 contribution from one donor, and two $500 contributions from another donor) for the purpose of supporting women education program of The Friendship Bridge. Under the terms of the awards, the principal amount is to be invested in-perpetuity and only the earnings can be used for the aforementioned purpose.

The Friendship Bridge's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Friendship Bridge classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Friendship Bridge in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, The Friendship Bridge considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

11. ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of December 31, 2012:

	Endowment
Donor-Restricted Endowment Funds	**$ 101,000**

Endowment net asset composition by type of fund as of December 31, 2011:

	Endowment
Donor-Restricted Endowment Funds	**$ 101,000**

Changes in endowment net assets for the years ended December 31, 2012 and 2011:

	Endowment
Endowment net assets, December 31, 2010	$ 101,000
Investment losses	(3,349)
Replenishment of investment losses	3,349
Endowment net assets, December 31, 2011	101,000
Investment gains	917
Transfer (use) of investment gains	(917)
ENDOWMENT NET ASSETS, DECEMBER 31, 2012	**$ 101,000**

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires The Friendship Bridge to retain as fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $3,349 during the year ended December 31, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriations for certain programs that was deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters -

The Friendship Bridge has adopted investment and spending policies for endowment assets that attempt to provide long-term growth of principal consistent with reasonable income. The Friendship Bridge attempts to preserve the capital by minimizing the probability of loss of principal over the investment horizon. Emphasis is placed on minimizing return volatility rather than maximizing total return. The Friendship Bridge shall manage the assets with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting like capacity and familiar with such matters would use in the conduct of an entity of a like character with the like aims.

11. ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, The Friendship Bridge relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Friendship Bridge targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The current spending policy is in accordance with donor restrictions. Accordingly, over the long-term, The Friendship Bridge expects the current spending policy to allow its endowment to grow annually; this is consistent with The Friendship Bridge's objective to maintain the purchasing power of the endowment assets held in-perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

12. SUBSEQUENT EVENTS

In preparing these financial statements, The Friendship Bridge has evaluated events and transactions for potential recognition or disclosure through May 17, 2013, the date the financial statements were issued.